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Second country cooperation framework for Croatia (2001-2003)

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Introduction

1. The second country cooperation framework (CCF) for Croatia for the period 2001 to 2003 is based on national priorities and takes due account of the 2000 country review of the first CCF (1997-2000). It also builds on an analysis of UNDP strengths, weaknesses, opportunities and constraints, which took advantage of the views of national and international partners. With this background, the CCF focuses on programme areas where UNDP has comparative advantages and can contribute to making positive changes of national importance and with visible results.

I. Development situation from a sustainable human development perspective

2. With the end of the four-year long war in 1995 and under the effect of a successful stabilization programme launched in 1993, Croatia entered an era of reconstruction and recovery. The country experienced strong economic growth, as demonstrated by an average gross domestic product (GDP) growth of 6 per cent between 1995 and 1998. The human development index rose from 0.760 in 1993 to 0.773 in 1997, essentially as a result of a 24 per cent increase of GDP per capita, from US$ 3,960 to US$ 4,895.

3. Growth, however, was accompanied by a rapid increase in public-sector expenditure, which in 1998 reached 54 per cent of GDP. This was caused primarily by the expansion of government aid and programmes, particularly to war-affected groups benefiting from reconstruction and development efforts, and also by an increase in social expenditure. Furthermore, the rapid growth of imports, which could not be compensated by stagnating exports, and increased reliance on external borrowing led to growing external imbalances.

4. By the end of 1998, the country started experiencing economic slowdown. Economic growth in 1998 fell to 2.7 per cent under the combined effect of more stable domestic demand, growing internal indebtedness, limited responsiveness of international capital markets and the repercussions of the Kosovo conflict on trade, tourism and foreign investment.

5. Poor performance in the enterprise sector, adding to the slowdown in growth, led to rising rates of unemployment, exceeding 20 per cent in 2000. While social benefits have kept absolute poverty at a low, relative poverty is one of the highest in the region and income distribution is one of the most unequal. Structural reforms needed to restore macroeconomic stability and sustained growth could further deteriorate the situation.

6. There is a total of 304,000 returnees, refugees and displaced persons, who have lost property and sometimes also family members. The war-torn areas are among the poorest in the country and offer little prospects for employment. Government and, to a large extent, donor programmes have focused on housing and infrastructure rebuilding. Some 65 per cent of housing has been rehabilitated or rebuilt, in conjunction with the reconstruction of social infrastructure and public facilities.

7. Economic revitalization of war-torn areas and support for sustainable reintegration have been less of a priority: so far economic development and investments have remained limited. While unemployment is high (over 60 per cent in Knin and Vukovar counties), returnees often lack initial capital for starting a new activity. Many continue to depend on humanitarian structures and assistance programmes. Given the bleak economic situation, people of working-age are reluctant to return: 70 per cent of organized returnees are over 50 years old, which severely limits development potential. Land mines remain a major problem. By mid-1998, about 40 km^2 had been cleared of mines, or less than 1 per cent of the estimated total mined area.

8. Croatia has abundant natural resources, which have traditionally supported economic development in agriculture, fisheries, forestry and tourism, and still represent an important potential for tourism development. The country enjoys a great diversity of ecological systems, flora and fauna. Major areas of concern in the field of environmental protection include the conservation and management of biodiversity, water resource management and water pollution control, as well as the institutional and legislative framework.

9. In January 2000, national elections brought a new coalition into power. The change of Government ended the country's isolation on the international scene. It has since become a member of the World Trade Organization (WTO) and is due to start negotiations for

the establishment of a stabilization and association agreement with the European Union.

10. The new Government based its five-year programme on the commitment to build civil society and a democratic, market-oriented State integrated into the European Union. Main priorities include: (a) strengthening democracy and building civil society; (b) economic growth and development; and (c) regional development.

Strengthening democracy and building the civil society

11. The political system will be reshaped to allow for a more balanced division of powers, a more efficient functioning of judiciary institutions and of the legislative system, and larger competences to local governments. The protection of freedom and rights and the promotion of dialogue and tolerance will also be priority goals. The Government intends to promote the participation of civil society in the development process and to develop cooperation between the State and the non-governmental organizations (NGO) community.

Economic growth and development

12. Priorities will be the restoration of economic stability and the creation of an environment that can sustain economic growth and employment, as well as higher outputs and exports. Particular emphasis will be given to the development of small- and medium-sized enterprises, with a view to supporting job creation. Strengthening the mechanisms for nature conservation and environmental protection will also be an important goal.

Regional development

13. The Government will foster a more balanced development of Croatian regions and their improved connection with Europe. Special emphasis will be placed on the sustainable development of demographically and economically underdeveloped areas. In war-torn areas, the priority will be to promote sustainable economic revitalization.

II. Results and lessons of past cooperation

14. Results of past UNDP cooperation that can serve as a foundation on which to build the current CCF feature two main areas:

(a) *Area development projects in war-torn areas*. UNDP concentrated the majority of its resources on supporting the rehabilitation of war-torn areas and the peaceful reintegration of returnees. Projects simultaneously addressed basic economic and social needs through the provision of small-scale infrastructure and support to income-generation. They focused on the capacity-building of local actors and used a participatory and non-discriminatory approach. Projects in this area received financial contributions from the European Union, Belgium, Norway, Sweden and Japan;

(b) *Environmental protection*. UNDP initiated a portfolio of environmental projects with the support of the Global Environment Facility (GEF). Projects aimed to strengthen institutional capacities and to assist Croatia in meeting its international commitments linked to the reduction of greenhouse gas emissions. They were based on the strong association of public and private stakeholders in the planning and implementation of project activities.

15. A country review was conducted in January 2000. Its main findings were as follows:

(a) UNDP suffered from an imprecise image in Croatia as a result of the lack of appropriate representation and insufficient visibility;

(b) There were major achievements related to the experimentation of instruments and approaches geared towards integration and economic development in war-torn areas and to the provision of upstream institutional support for the environment;

(c) Contacts with the Government remained limited beyond the county level in war-torn areas. UNDP should develop a strong partnership with the Government and use project experience to develop policy dialogue;

(d) The national human development report (NHDR) should have a role in fostering policy debates and should include a wider range of participants in the preparation and promotion processes;

(e) Donors provided 54 per cent of CCF resources. Donor partnerships should be reinforced based on the specialization that UNDP has developed in war-torn areas;

(f) Monitoring and evaluation was insufficiently developed and could therefore affect decision-making and hamper the promotion of UNDP activities.

III. Objectives, programme areas and expected results

A. Structure of the UNDP programme

16. The programme takes stock of UNDP strengths in Croatia, which include its recognized experience in the economic revitalization of war-torn areas and in the protection of the environment and its capacity to develop participatory approaches that embrace economic development actors and civil society. It also takes into account the constraints UNDP is presently facing, mainly the lack of a clear identity at the government level and within the donor community and a stringent lack of resources.

17. Two basic principles therefore underlie programme design:

(a) The programme will be based on continuity. It will primarily concentrate on areas where UNDP is already present, consolidating and expanding existing activities;

(b) It will aim at maximum leverage by considering its various projects as policy experiments, so as to test innovative and risk-taking approaches to support policy dialogue and policy design at the national level.

18. The programme will contribute to the transformation of Croatia into a democratic and market-oriented society, integrated in the European Union, by supporting the creation of an enabling environment for sustainable human development and by promoting good governance. This will be achieved through two interrelated and mutually reinforcing programme areas: (a) local governance and sustainable livelihoods in areas of special state concern; and (b) environmental governance and sustainable management of natural resources.

19. These two areas form a solid cornerstone on which UNDP can build a clear and distinctive identity, based on: (a) the promotion of sustainable livelihoods, specializing in war-torn and economically marginalized areas; (b) support to local governance and to the strengthening of civil society, especially with the aim of developing and stabilizing war-torn areas; (c) the development of a strong partnership with the Government, anchored in constructive policy dialogue; (d) the endorsement of national ownership of development programmes, both at the national and local level, by focusing on capacity-building and national execution where appropriate; and (e) innovative mechanisms to facilitate policy-making.

20. Both programme areas will be integrated into a cohesive strategic framework that will reinforce the overall impact of the programme and contribute to shaping the identity of UNDP in Croatia. The programme will be backed by a strong impact-assessment system to track results, to facilitate the extraction of lessons and to feed policy dialogue and policy design. The NHDR will be used as a major advocacy tool and as an instrument to support policy dialogue.

B. Local governance and sustainable livelihoods in the war-torn areas

Area-based local development programme

21. The programme will focus on the promotion of economic revitalization, democratization and capacity-building in war-torn areas. It will offer a multifaceted set of interventions and related methodologies to achieve sustainable human development, good governance and stability at the local level. It will support the development of an economic, social and institutional environment that can boost inhabitants' self-confidence and trust in the future. Interventions will include: (a) support for economic revitalization (endorsing small- and medium-sized enterprises, micro-loans, start-up packages, and farmers' and other professional associations ...); (b) the promotion of local governance and decentralization (capacity-building of local governments, local investment funds, etc.); (c) the backing of democratization efforts (capacity-building of and funding facilities for NGOs and civil society groups, development of partnerships between local authorities, the private sector and civil society, etc.); and (d) support for local planning endeavours (regional

strategies and planning, planning at county and municipal level, etc.). In addition, the programme will foster social cohesion by incorporating mechanisms to promote inter-community tolerance, reconciliation and non-discriminatory approaches.

22. The programme will seek to implement the whole range of interventions in selected parts of war-torn areas, thereby applying a holistic approach to their development and stabilization within a comprehensive strategic framework. It will anchor all interventions at the local level, with local actors (local authorities, local economic development agencies, professional associations, NGOs and civil-society groups) in the driving seat.

23. The programme will set up a monitoring and evaluation system, including a strong impact-assessment system, to share results, best practices and lessons learned with the Government and interested donors.

24. The ultimate goal of the programme will be to propose, in tight relationship with local actors and the Government, models for the rehabilitation of war-torn and poorest areas.

25. Promoting synergies with other programme areas will foster activities developed in war-torn areas and increase their impact. To the extent possible, environmental projects will focus on areas where UNDP is already funding activities. The NHDR will address issues at stake in war-torn areas, such as regional development, democratization or decentralization.

Mine action programme

26. UNDP will contribute to the creation of a safe environment in war-torn areas by strengthening the capacities of the government-backed Croatia Mine Action Centre (CROMAC) to plan, manage, execute and support mine action activities and to improve links between demining operations and economic-development priorities. The specific interventions of the mine action programme of UNDP in demining operations in Croatia will follow two main guidelines: (a) it will focus on capacity-building and will not include any operational activities; (b) it will have a larger scope than strictly demining, covering the whole range of mine action, including surveying and marking, awareness activities and assistance to victims.

C. Environmental governance and sustainable management of natural resources

27. The contribution of UNDP to environmental governance and management will be financed by the GEF. To ensure the overall coherence of the programme, environmental projects will be based on principles similar to those developed in the area-based development programme: (a) supporting sustainable livelihoods by incorporating economic development concerns into environmental protection (management of natural parks, linkage with tourism and particularly rural tourism); (b) promoting local governance and strengthening civil society by building the capacities of local stakeholders in the design and implementation of projects; (c) strengthening the stabilization of war-torn areas (through joint endeavours with Bosnia-Herzegovina); and (d) developing pilot approaches to be used as models for policy design at the government level. Projects will concentrate on two areas: conservation of biodiversity and management of cross-border rivers.

Conservation of biodiversity

28. UNDP will help to strengthen management capacities for protected areas in selected ecosystems, focusing on the sustainable use and management of natural resources through integrated and participatory approaches. Sites will be selected taking into account those areas where UNDP already supports other activities.

Management of transboundary river areas

29. UNDP will support the development of management and protection plans for the catchment area of the Cetina River and for the lower valley of the Neretva River. Both areas stretch across the border between Dalmatia and Bosnia-Herzegovina and include unique ecosystems. Projects will include the setting up of joint management bodies and the preparation of action plans, including the development of related economic activities.

D. Expected results

30. The area development programme in war-torn areas will provide integrated model approaches for the

economic and social revitalization, based on partnerships comprising public authorities, the private sector and civil society. Specifically, the programme will: (a) test mechanisms to create employment, to generate income and to stimulate local production; (b) strengthen the capacities of local district and municipal authorities to create an enabling environment for the development of productive activities and to facilitate the sustainable reintegration of returnees; and (c) develop approaches enabling the participation of civil society in the reconstruction of a cohesive economic and social fabric. By the end of the mine action programme, the Croatian Mine Action Centre will be able to plan, coordinate and manage mine action without further external technical assistance.

31. The environmental governance programme will: (a) produce sustainable models for the management of protected ecosystems and transboundary rivers, based on partnerships between public authorities and local stakeholders; and (b) tighten the relationship with Bosnia-Herzegovina through the establishment of joint institutions and management systems.

32. In support for both programme areas, the NHDR will foster policy dialogue, sustain policy debate among decision makers, development practitioners, academics and civil society, and help to position UNDP as a policy adviser to the Government.

IV. Management arrangements

Programme management

33. UNDP will develop a strong partnership with the Government, based on policy dialogue, adjustment of programme activities to national priorities and policies and, where not yet defined, provision of inputs through either downstream pilot projects or upstream technical assistance. Furthermore, national ownership of the programme, both at the central and local level, will be strengthened by: (a) developing national execution, especially in the area of environmental projects; (b) associating local stakeholders in the design, implementation and monitoring of programme activities; and (c) supporting capacity-building both at the national and at the local level. As in the past, United Nations Volunteers will constitute a major source of technical assistance. The subregional resource facility is also expected to provide specialized support on a regular basis.

Monitoring, review and reporting

34. Based on the strategic results frameworks, a monitoring system will be set up within the country office to follow the performance and the results of the programme as a whole and to identify corrective measures when needed. In addition, a specific monitoring and evaluation system, including impact assessment, will be put in place within the local development programme. The latter should serve a triple purpose: (a) to ensure that the various components progress satisfactorily towards the attainment of planned results and objectives; (b) to identify lessons learned and best practices on which to base upstream policy advice; and (c) to sustain resource mobilization. The local development programme will also be independently evaluated in the course of CCF implementation.

Coordination

35. UNDP will foster aid coordination at the local and national level. Coordination in war-torn areas will be considered a priority, with the aim of exchanging information, harmonizing approaches and avoiding duplications. Complementarities will be established with other donor programmes so as to strengthen their respective impact.

Resource mobilization

36. UNDP resources available for the CCF are extremely limited. The success of the whole programme, and particularly of its flagship in war-torn areas, almost entirely rests on fruitful resource mobilization. UNDP will establish a resource mobilization strategy, which will: (a) be based on results; (b) target donors who have already supported UNDP projects, as well as donors who do not have an aid structure in Croatia; (c) build a strong partnership with the Government to pursue resource mobilization jointly; (d) construct solid partnerships with the Office of the United Nations High Commissioner for Refugees (UNHCR) and the Organization for Security and Cooperation in Europe (OSCE) which have an important role in the stabilization of war-torn areas; and (e) develop steady coordination within the United Nations system.

Advocacy

37. Advocacy will focus on results and lessons drawn from activities in the two programme areas. The NHDR will also be used as a major instrument for opening policy debates and to foster the exchange of ideas among policy makers, development practitioners, academics and civil society.

Annex

Resource mobilization target table for Croatia (2001-2003)

Source	*Amount (In thousands of United States dollars)*	*Comments*
UNDP regular resources		
Estimated carry-over into 2001	95	Includes AOS.
TRAC 1.1.1	204	Assigned immediately to country.
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
SPPD/STS	179	
Subtotal	**478**[a]	
UNDP other resources		
Government cost-sharing	-	
Sustainable development funds	5 000	
Third party cost-sharing	6 500	
Funds, trust funds and other	-	
Subtotal	**11 500**	
Grand total	**11 978**[a]	

[a] Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.
Abbreviations: AOS = administrative and operational services; SPPD = support for policy and programme development; STS = support for technical services; TRAC = target for resource assignment from the core.